

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

|                                                                                                                                                                     |                                 |                                                               |                        |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|---------------------------------------------------------------|------------------------|
| Local Government Type<br><input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other |                                 | Local Government Name<br><b>IONIA COUNTY ROAD COMMISSION</b>  | County<br><b>IONIA</b> |
| Audit Date<br><b>12/31/05</b>                                                                                                                                       | Opinion Date<br><b>03/16/06</b> | Date Accountant Report Submitted to State:<br><b>05/24/06</b> |                        |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

|                                                                               | Enclosed | To Be Forwarded | Not Required                        |
|-------------------------------------------------------------------------------|----------|-----------------|-------------------------------------|
| The letter of comments and recommendations.                                   |          |                 | <input checked="" type="checkbox"/> |
| Reports on individual federal financial assistance programs (program audits). |          |                 | <input checked="" type="checkbox"/> |
| Single Audit Reports (ASLGU).                                                 |          |                 | <input checked="" type="checkbox"/> |

|                                                                                      |  |                           |                         |
|--------------------------------------------------------------------------------------|--|---------------------------|-------------------------|
| Certified Public Accountant (Firm Name)<br><b>STEWART, BEAUVAIS &amp; WHIPPLE PC</b> |  |                           |                         |
| Street Address<br><b>1979 HOLLAND AVENUE</b>                                         |  | City<br><b>PORT HURON</b> | State<br><b>MI</b>      |
|                                                                                      |  | ZIP<br><b>48060</b>       |                         |
| Accountant Signature<br><i>Stewart Beauvais &amp; Whipple</i>                        |  |                           | Date<br><b>05/24/06</b> |

**IONIA COUNTY ROAD COMMISSION**

**A Component Unit of Ionia County, Michigan**

**ANNUAL FINANCIAL REPORT  
with Supplementary Information**

**FOR THE YEAR ENDED  
DECEMBER 31, 2005**

Stewart,  
Beauvais  
& Whipple P.C.

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CERTIFIED PUBLIC ACCOUNTANTS



**IONIA COUNTY ROAD COMMISSION**  
**A Component Unit of Ionia County, Michigan**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of County Road Commissioners  
of Ionia County  
Ionia, Michigan

We have audited the accompanying basic financial statements of the Ionia County Road Commission, a component unit of Ionia County, Michigan, as of and for the year ended December 31, 2005. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Road Commission of Ionia County, Michigan, as of December 31, 2005, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated March 16, 2006, on our consideration of the Road Commission of Ionia County, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 2-5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying financial information listed as supplementary financial data in the Table of Contents is presented for purpose of additional analysis and is not a required part of the basic financial statements of the Road Commission of Ionia County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Certified Public Accountants

March 16, 2006

# **IONIA COUNTY ROAD COMMISSION**

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## **A Component Unit of Ionia County, Michigan**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Ionia County Road Commission, we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Road Commission for the year ended December 31, 2005. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to provide a basis of understanding of the Ionia County Road Commission's basic statements. These basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. Supplementary financial information and statistical tables are also provided for additional information purposes.

#### **Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the Ionia County Road Commission's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Ionia County Road Commission's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., unused vacation and sick).

#### **Government Fund Financial Statements**

Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds financial statements with similar information presented for government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions.

The Ionia County Road Commission adopts an annual appropriated budget for the operating fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

#### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and governmental fund financial statements. The notes to financial statements can be found on pages 9-21 of this report.

## FINANCIAL HIGHLIGHTS

### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As shown on the chart below, the Road Commission's assets exceeded liabilities by \$35,504,559 at the end of the fiscal year.

The net assets are separated into two major components, invested in capital assets net of related debt of \$34,561,614 or 97% of net assets and unrestricted net assets of \$941,945 or 3% of net assets. The investment in capital assets of the Road Commission reflects its investment in capital assets (i.e., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Commission used these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Road Commission's investment in capital assets is reported net of related debt, it should be noted that the resources need to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of unrestricted net assets may be used to meet the Road Commission's ongoing obligations to citizens and creditors.

At the end of the current year, the Road Commission is able to report positive balances in all categories (invested in capital assets, net of related debt; restricted net assets and unrestricted net assets).

The following table shows the comparison of the net assets at December 31, 2005 and 2004 in a condensed format:

#### Condensed Statement of Net Assets

|                                                 | <u>2005</u>         | <u>2004</u>         |
|-------------------------------------------------|---------------------|---------------------|
| Assets –                                        |                     |                     |
| Current and other unrestricted assets           | \$ 1,801,429        | \$ 1,895,978        |
| Capital Assets                                  | <u>35,408,463</u>   | <u>33,738,607</u>   |
| Total Assets                                    | <u>37,209,892</u>   | <u>35,634,585</u>   |
| Liabilities –                                   |                     |                     |
| Long-term liabilities outstanding               | 983,456             | 1,093,249           |
| Other liabilities                               | <u>721,877</u>      | <u>542,760</u>      |
| Total Liabilities                               | <u>1,705,333</u>    | <u>1,636,009</u>    |
| Net Assets –                                    |                     |                     |
| Invested in capital assets, net of related debt | 34,562,614          | 32,833,980          |
| Restricted – Primary Roads                      | 0                   | 181,509             |
| Unrestricted                                    | <u>941,945</u>      | <u>983,087</u>      |
| Total Net Assets                                | <u>\$35,504,559</u> | <u>\$33,998,576</u> |

The following table presents a comparison of revenues, expenses and changes in net assets for the year ended December 31, 2005 and 2004 in a condensed format:

### Condensed Statement of Activities

|                      | <u>2005</u>         | <u>2004</u>         |
|----------------------|---------------------|---------------------|
| Revenues –           |                     |                     |
| Federal Sources      | \$ 1,089,273        | \$ 1,005,723        |
| State Sources        | 5,514,299           | 5,109,419           |
| Local Sources        | 1,103,627           | 1,280,343           |
| Other                | <u>1,711,513</u>    | <u>1,499,688</u>    |
|                      | <u>9,418,712</u>    | <u>8,895,173</u>    |
| Expenditures –       |                     |                     |
| Maintenance          | 5,283,140           | 4,394,285           |
| Administration       | 336,190             | 326,282             |
| Equipment            | ( 482,207)          | ( 454,081)          |
| Other and Interest   | 87,779              | 97,890              |
| Depreciation         | <u>2,687,827</u>    | <u>2,780,516</u>    |
|                      | <u>7,912,729</u>    | <u>7,144,892</u>    |
| Change in Net Assets | <u>\$ 1,505,983</u> | <u>\$ 1,750,281</u> |

### Financial Analysis of Governmental Fund Financial Statements

As noted earlier, the focus of the governmental fund financial statements is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Road Commission's financing requirements. In particular, unreserved fund balance may serve as a useful measure of government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Road Commission reported an ending fund balance of \$1,092,141, a decrease of \$202,970 from the prior year. \$1,044,478 of the fund balance constitutes unreserved fund balance, which is available for spending at the Road Commission's discretion; however, \$134,020 is designated for future building and site improvements. The remainder of the fund balance is reserved to indicate that it is not available for new spending because \$47,663 has been prepaid.

### BUDGETARY HIGHLIGHTS

The Road Commission amended its 2005 budget to reflect status changes in preservation-structural improvements and maintenance projects as well as to reflect actual Federal and State revenues for pass-through projects. The final budget was \$623,346 greater in revenues and \$838,247 greater in expenditures mainly for these reasons. Michigan Transportation Fund receipts decreased due to one-time state legislative changes from the previous year; Federal and State pass-through revenues increased due to 2004 projects being delayed to 2005 and new projects being added; state maintenance contract increased due to additional projects. The actual revenues and expenditures were within 7% and 10%, respectively, of the original preliminary budget amounts.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

**Capital Assets** – The Road Commission has \$35,334,727 in capital assets at the end of the year. The reason for the increase from the previous year was the purchase of new road equipment and the capitalization of heavy maintenance road and bridge projects funded by federal, state and local revenues. A summary of capital assets net of accumulated depreciation at December 31, 2005 in comparison to previous years is as follows:

|                            | <u>2005</u>          | <u>2004</u>          |
|----------------------------|----------------------|----------------------|
| Land and land improvements | \$ 11,176,087        | \$ 10,244,326        |
| Buildings and improvements | 1,733,750            | 1,807,088            |
| Equipment                  | 1,208,632            | 1,028,519            |
| Infrastructure             | 21,206,178           | 20,648,594           |
| Depletable assets          | <u>10,080</u>        | <u>10,080</u>        |
|                            | <u>\$ 35,334,727</u> | <u>\$ 33,738,607</u> |

Additional information on the Road Commission's capital assets activity may be found in Note 6 to the financial statements.

**Long Term Liabilities** – At the end of the current year, the Road Commission had total bond debt outstanding of \$570,000. The debt is backed by the full faith and credit of Ionia County. The total debt was issued in anticipation of and payable from State collected taxes returned to the Road Commission from the Michigan Transportation Fund for highway construction and work incidental thereto. A summary of the Michigan Transportation Bonded Debt is as follows:

|                                             |           |
|---------------------------------------------|-----------|
| Michigan Transportation Bonds – Series 1998 | \$570,000 |
|---------------------------------------------|-----------|

Additional information on the Road Commission's long-term liabilities may be found in Note 7 to the financial statements.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The majority of the Road Commission revenue streams are fairly stable. Long-term state fiscal crises could, however, affect local abilities to provide increased levels of maintenance. Cost sharing programs have been reduced due to last year's revenue decreases and expected decreases in gas tax receipts.

Our 2006 budget is programmed for revenues that are quite a bit lower than 2005 in project related areas, but only slightly lower in other areas. Expenditures are budgeted to equal revenues for the year and there should be no reduction in available fund balance.

## CONTACTING THE ROAD COMMISSION'S MANAGEMENT

This financial report is designed to provide a general overview of the Ionia County Road Commission's finances and to show accountability. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Ionia County Road Commission, 169 E. Riverside Drive, P.O. Box 76, Ionia, MI 48846.



## **BASIC FINANCIAL STATEMENTS**

**IONIA COUNTY ROAD COMMISSION**  
**A Component Unit of Ionia County, Michigan**

**GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2005**

|                                                 | Governmental<br>Fund | Adjustments<br>(Note 2) | Statement of<br>Net Assets |
|-------------------------------------------------|----------------------|-------------------------|----------------------------|
| ASSETS                                          |                      |                         |                            |
| Cash and cash equivalents                       | \$ 320,930           | \$ -                    | \$ 320,930                 |
| Due from other governmental units -             |                      |                         |                            |
| State                                           | 949,756              | -                       | 949,756                    |
| Local                                           | 25,407               | -                       | 25,407                     |
| Accounts receivable                             | 38,859               | -                       | 38,859                     |
| Prepaid expenditures/expenses                   | 47,663               | 73,736                  | 121,399                    |
| Inventory                                       | 418,814              | -                       | 418,814                    |
| Capital assets, net of accumulated depreciation |                      |                         |                            |
| Assets being depreciated                        | -                    | 24,158,640              | 24,158,640                 |
| Assets not being depreciated                    | -                    | 11,176,087              | 11,176,087                 |
| Total Assets                                    | <u>\$ 1,801,429</u>  | <u>\$ 35,408,463</u>    | <u>\$ 37,209,892</u>       |
| <b>LIABILITIES AND FUND EQUITY</b>              |                      |                         |                            |
| <b>Liabilities:</b>                             |                      |                         |                            |
| Accounts payable                                | \$ 303,801           | \$ -                    | \$ 303,801                 |
| Contractor's retention payable                  | 2,215                | -                       | 2,215                      |
| Accrued liabilities                             | 60,561               | -                       | 60,561                     |
| Accrued interest                                | -                    | 12,589                  | 12,589                     |
| Due to other governmental units                 | 57,031               | -                       | 57,031                     |
| Advances and deposits                           | 285,680              | -                       | 285,680                    |
| Noncurrent Liabilities:                         |                      |                         |                            |
| Due within one year                             | -                    | 288,779                 | 288,779                    |
| Due in more than one year                       | -                    | 694,677                 | 694,677                    |
| Total Liabilities                               | <u>709,288</u>       | <u>996,045</u>          | <u>1,705,333</u>           |
| <b>Fund Balance:</b>                            |                      |                         |                            |
| Fund Balance -                                  |                      |                         |                            |
| Reserved -                                      |                      |                         |                            |
| Prepaid expenditures                            | 47,663               | ( 47,663)               | -                          |
| Unreserved -                                    |                      |                         |                            |
| Designated for building and site improvements   | 134,020              | ( 134,020)              | -                          |
| Undesignated                                    | 910,458              | ( 910,458)              | -                          |
| Total Fund Balance                              | <u>1,092,141</u>     | <u>( 1,092,141)</u>     | <u>-</u>                   |
| Total Liabilities and Fund Balance              | <u>\$ 1,801,429</u>  |                         |                            |
| <b>Net Assets:</b>                              |                      |                         |                            |
| Invested in capital assets, net of related debt |                      | 34,562,614              | 34,562,614                 |
| Unrestricted                                    |                      | 941,945                 | 941,945                    |
| Total Net Assets                                |                      | <u>\$ 35,504,559</u>    | <u>\$ 35,504,559</u>       |

See Notes to Financial Statements

**IONIA COUNTY ROAD COMMISSION**  
**A Component Unit of Ionia County, Michigan**

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2005**

|                                                       | Governmental<br>Fund | Adjustments<br>(Note 2) | Statement of<br>Activities |
|-------------------------------------------------------|----------------------|-------------------------|----------------------------|
| <b>Revenues:</b>                                      |                      |                         |                            |
| Permits                                               | \$ 74,976            | \$ -                    | \$ 74,976                  |
| Intergovernmental -                                   |                      |                         |                            |
| Federal sources                                       | 1,089,273            | -                       | 1,089,273                  |
| State sources                                         | 5,514,299            | -                       | 5,514,299                  |
| Local sources                                         | 1,103,627            | -                       | 1,103,627                  |
| Charges for services                                  | 1,275,665            | -                       | 1,275,665                  |
| Interest and rents                                    | 31,931               | -                       | 31,931                     |
| Other                                                 | 234,941              | -                       | 234,941                    |
| Total Revenues                                        | <u>9,324,712</u>     | <u>-</u>                | <u>9,324,712</u>           |
| <b>Other Financing Sources:</b>                       |                      |                         |                            |
| County appropriation                                  | 94,000               | -                       | 94,000                     |
| Installment loan proceeds                             | 123,000              | ( 123,000)              | -                          |
|                                                       | <u>217,000</u>       | <u>( 123,000)</u>       | <u>94,000</u>              |
| Total Revenues and Other Financing Sources            | <u>9,541,712</u>     | <u>( 123,000)</u>       | <u>9,418,712</u>           |
| <b>Expenditures/Expenses:</b>                         |                      |                         |                            |
| Current -                                             |                      |                         |                            |
| Primary preservation - structural improvements        | 2,330,943            | ( 2,330,943)            | -                          |
| Local preservation - structural improvements          | 1,317,117            | ( 1,317,117)            | -                          |
| Primary maintenance                                   | 1,742,581            | ( 1,901)                | 1,740,680                  |
| Local maintenance                                     | 2,354,534            | ( 3,305)                | 2,351,229                  |
| State maintenance                                     | 1,191,231            | -                       | 1,191,231                  |
| Administrative                                        | 345,455              | ( 9,265)                | 336,190                    |
| Equipment                                             | 1,696,820            | ( 480,689)              | 1,216,131                  |
| Less equipment rental                                 |                      |                         |                            |
| charged to other activities                           | ( 1,698,338)         | -                       | ( 1,698,338)               |
| Depreciation                                          | -                    | 2,687,827               | 2,687,827                  |
| Other                                                 | 61,630               | ( 7,841)                | 53,789                     |
| Capital Outlay                                        | 661,949              | ( 661,949)              | -                          |
| Less: depreciation credit                             |                      |                         |                            |
| and retirements                                       | ( 551,051)           | 551,051                 | -                          |
| Debt Service -                                        |                      |                         |                            |
| Principal                                             | 255,514              | ( 255,514)              | -                          |
| Interest                                              | 36,297               | ( 2,307)                | 33,990                     |
| Total Expenditures/Expenses                           | <u>9,744,682</u>     | <u>( 1,831,953)</u>     | <u>7,912,729</u>           |
| Excess of revenues over (under) expenditures/expenses | ( 202,970)           | 1,708,953               | 1,505,983                  |
| Fund Balance/Net Assets at January 1, 2005            | <u>1,295,111</u>     | <u>32,703,465</u>       | <u>33,998,576</u>          |
| Fund Balance/Net Assets at December 31, 2005          | <u>\$ 1,092,141</u>  | <u>\$ 34,412,418</u>    | <u>\$ 35,504,559</u>       |

See Notes to Financial Statements

**IONIA COUNTY ROAD COMMISSION**  
**A Component Unit of Ionia County, Michigan**

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2005**

|                                                   | Original<br>Budget  | Amended<br>Budget   | Actual              | Variance with<br>Amended Budget<br>Positive<br>(Negative) |
|---------------------------------------------------|---------------------|---------------------|---------------------|-----------------------------------------------------------|
| <b>Revenues:</b>                                  |                     |                     |                     |                                                           |
| Permits                                           | \$ 48,000           | \$ 70,000           | \$ 74,976           | \$ 4,976                                                  |
| Intergovernmental -                               |                     |                     |                     |                                                           |
| Federal sources                                   | 1,505,025           | 1,059,145           | 1,089,273           | 30,128                                                    |
| State sources                                     | 4,952,054           | 5,510,974           | 5,514,299           | 3,325                                                     |
| Local sources                                     | 1,085,000           | 1,100,000           | 1,103,627           | 3,627                                                     |
| Charges for services                              | 863,000             | 1,100,375           | 1,275,665           | 175,290                                                   |
| Interest and rents                                | 20,000              | 30,000              | 31,931              | 1,931                                                     |
| Other                                             | 160,000             | 232,931             | 234,941             | 2,010                                                     |
| Total Revenues                                    | <u>8,633,079</u>    | <u>9,103,425</u>    | <u>9,324,712</u>    | <u>221,287</u>                                            |
| <b>Other Financing Sources:</b>                   |                     |                     |                     |                                                           |
| County appropriation                              | 64,000              | 94,000              | 94,000              | -                                                         |
| Installment loan proceeds                         | -                   | 123,000             | 123,000             | -                                                         |
|                                                   | <u>64,000</u>       | <u>217,000</u>      | <u>217,000</u>      | <u>-</u>                                                  |
| Total Revenues and Other Financing Sources        | <u>8,697,079</u>    | <u>9,320,425</u>    | <u>9,541,712</u>    | <u>221,287</u>                                            |
| <b>Expenditures:</b>                              |                     |                     |                     |                                                           |
| Current -                                         |                     |                     |                     |                                                           |
| Primary preservation - structural<br>improvements | 2,114,851           | 2,223,471           | 2,330,943           | ( 107,472)                                                |
| Local preservation - structural<br>improvements   | 1,561,600           | 1,244,089           | 1,317,117           | ( 73,028)                                                 |
| Primary maintenance                               | 1,354,384           | 1,717,813           | 1,742,581           | ( 24,768)                                                 |
| Local maintenance                                 | 1,628,840           | 2,326,990           | 2,354,534           | ( 27,544)                                                 |
| State maintenance                                 | 838,000             | 1,100,375           | 1,191,231           | ( 90,856)                                                 |
| Administrative                                    | 359,972             | 351,813             | 345,455             | 6,358                                                     |
| Equipment - net                                   | 259,435             | 19,552              | ( 1,518)            | 21,070                                                    |
| Other                                             | 37,685              | 51,140              | 61,630              | ( 10,490)                                                 |
| Capital Outlay - net                              | 250,127             | 207,616             | 110,898             | 96,718                                                    |
| Debt Service                                      | 291,811             | 292,093             | 291,811             | 282                                                       |
| Total Expenditures                                | <u>8,696,705</u>    | <u>9,534,952</u>    | <u>9,744,682</u>    | <u>( 209,730)</u>                                         |
| Excess of revenues under expenditures             | 374                 | ( 214,527)          | ( 202,970)          | 11,557                                                    |
| Fund Balance at January 1, 2005                   | <u>1,236,503</u>    | <u>1,303,745</u>    | <u>1,295,111</u>    | <u>( 8,634)</u>                                           |
| Fund Balance at December 31, 2005                 | <u>\$ 1,236,877</u> | <u>\$ 1,089,218</u> | <u>\$ 1,092,141</u> | <u>\$ 2,923</u>                                           |

See Notes to Financial Statements

**IONIA COUNTY ROAD COMMISSION**  
**A Component Unit of Ionia County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting methods and procedures adopted by the Ionia County Road Commission conform to accounting principles generally accepted in the United States of America as applied to governmental entities. The following Notes to the Financial Statements are an integral part of the Road Commission's basic financial statements.

**A. Description of Road Commission Operations –**

The Ionia County Road Fund, referred to as the Road Commission, is a Component Unit of the County of Ionia, Michigan, and is used to control the expenditure of revenues from the State distribution of gas and weight taxes, Federal Financial Assistance, reimbursements from the Department of State Highways for work performed by the County on State trunk lines, and contributions from other local units of government for work performed by the Road Commission workforce.

The Road Commission, which is established pursuant to the County Road Law (MCL224.1), operates under a Board appointed by the County Board of Commissioners, of three (3) County Road Commissioners who establish policies and review operations of the Road Commission. The Road Commission provides service to sixteen (16) Townships in Ionia County and maintains 1,221 miles of state, local and primary roads.

**B. Measurement Focus, Basis of Accounting and Financial Statement Presentation –**

The government-wide financial statement columns (i.e., statement of net assets and statement of activities) are reported using the economic resource measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

**C. Assets, Liabilities, and Fund Balance or Net Assets –**

**Cash and Cash Equivalents** – The Road Commission's cash and cash equivalents are cash on hand and demand deposits.

**Inventories** – Inventories of road materials and equipment parts are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are stated at average cost.

**IONIA COUNTY ROAD COMMISSION**  
**A Component Unit of Ionia County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

**Prepaid Items** – Certain payments to vendors (particularly for insurance coverage) reflect costs that are applicable to a future period and are recorded as prepaid items.

**Capital Assets** – Capital assets, which include property, plant, equipment, and infrastructure are reported in the government-wide (statement of net assets) financial statements. Capital assets for land, buildings and improvements and all equipment except road equipment are defined by the Road Commission as assets with an estimated useful life in excess of 2 years. No minimum cost is used to record road equipment capital assets and infrastructure are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are recorded in the governmental fund statements as capital expenditures at the time of purchase.

Depreciation is computed on the sum-of-the-years digits method for road equipment, and straight-line method for all other capital assets over the estimated useful life of the related asset.

The estimated useful lives are as follows:

|                            |             |
|----------------------------|-------------|
| Buildings and Improvements | 25-50 years |
| Equipment                  | 5- 8 years  |
| Roads                      | 8-30 years  |
| Bridges                    | 25-50 years |

Infrastructure is reported retrospectively from 1980, except for right-of-ways, bridges, and traffic signals which are required to be reported despite the date of purchase. Roads are removed from the capital assets at the time the group of individually recorded roads has been fully depreciated.

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation and depletion in the governmental fund statements as a charge to various expenditure accounts, and a credit to a depreciation/depletion credit account.

Accordingly, the annual depreciation/depletion expenditure does not affect the available operating equities of the governmental fund statements.

Depletion is calculated as the amount of prorated cost or other indicated value assigned to the extracted portion of a natural resource.

**Advances From The State Of Michigan** – The State of Michigan advances funds on a State maintenance agreement it has with the Ionia County Road Commission for specified maintenance, which the Road Commission will perform during the year, and for equipment purchases. These advances are considered current liabilities because they are subject to repayment annually upon audit by the State of Michigan.

**IONIA COUNTY ROAD COMMISSION**  
**A Component Unit of Ionia County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

**Accrued Vacation And Sick** – In accordance with the union contract and Board policy of the Road Commission, individual employees have a vested right upon termination of employment to receive compensation for accumulated sick leave and vacation under formulas and conditions specified in the contracts. Employee sick leave and vacation not expected to be paid with expendable available financial resources are recorded in the government-wide statements.

Employees are compensated 100% of their vested vacation upon termination for any reason.

Beginning November 1, 1994, unused sick leave has no limit on accumulation and has no provision for payoff at retirement, layoff, death or termination. Accumulated sick leave hours earned prior to November 1, 1994, at the hourly wage rate as of that date, were put in a sick leave bank. Employees are compensated 50% of their unused sick leave bank upon resignation or termination and are paid 100% of their sick leave bank upon death or retirement.

**Long-Term Obligations** – In the government-wide financial statements (statement of net assets), long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums discounts, and issuance costs on a prospective basis.

**Fund Equity** – Designation of fund balance represents tentative management plans that may be subject to change.

**Equipment Rental** – The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be (charged) allocated to the various activities. The effect of this allocation is offset to equipment expenditures/expenses.

**Estimates** – In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**IONIA COUNTY ROAD COMMISSION**  
**A Component Unit of Ionia County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:**

- A.** Explanation of differences between the governmental fund statement and the government-wide statement of net assets (Page 6).

|                                                                                                                                                                   |                      |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|
| Fund Balance – governmental fund                                                                                                                                  | \$ 1,092,141         |
| Capital assets used in the governmental fund activities that are not financial resources and therefore not reported in the governmental fund financial statements |                      |
| Add – capital assets                                                                                                                                              | 56,721,012           |
| Deduct – accumulated depreciation                                                                                                                                 | ( 21,386,285)        |
| Long-term liabilities that are not due in the current period therefore not reported in the governmental fund statements                                           | ( 983,456)           |
| Accrued interest payable on long-term liabilities not reported in the governmental fund statements                                                                | ( 12,589)            |
| Prepaid expenses not reported in the governmental fund statements                                                                                                 | <u>73,736</u>        |
| Net Assets                                                                                                                                                        | <u>\$ 35,504,559</u> |

- B.** Explanation of differences between the governmental fund statement of revenues, expenditures and changes in fund balance and the government-wide statement of activities (Page 7).

|                                                                                                                                                                                                                                              |              |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|
| Excess of revenues over expenditures - governmental fund statement                                                                                                                                                                           | \$( 202,970) |
| The governmental fund statements report capital outlay as expenditures, however, in the government-wide Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense |              |
| Add – capital outlay and infrastructure                                                                                                                                                                                                      | 4,310,009    |
| Deduct – retirements                                                                                                                                                                                                                         | ( 26,062)    |
| Deduct – depreciation                                                                                                                                                                                                                        | ( 2,687,827) |
| Principal payments on long-term liabilities are reported as an expenditure in the governmental fund statements, but not in the government-wide Statement of Activities (where it reduces the long-term liability)                            | 255,514      |
| Long-term Note proceeds reported as another financing source in the governmental fund statements, but not in the government-wide statements where it is reported as long-term liability                                                      | ( 123,000)   |



**IONIA COUNTY ROAD COMMISSION**  
**A Component Unit of Ionia County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS - (cont'd):**

|                                                                                                                                                                                                          |                     |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|
| Interest expense adjustment for accrual reported in the government-wide Statement of Activities when the liability is incurred and reported in the governmental fund statements only when payment is due | \$ 2,307            |
| Prepaid expense adjustment not reported in the governmental fund statements                                                                                                                              | 733                 |
| Accrued vacation and sick time expenses not reported in the governmental fund statements because they will not be paid with current financial resources                                                  | ( <u>22,721</u> )   |
| Change in Net Assets                                                                                                                                                                                     | \$ <u>1,505,983</u> |

**NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:**

**Auditing and Reporting –**

The audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States as described in the Independent Auditor's Report, but, also with the standards as provided in Act No. 71 of Public Acts of 1919, Section 21.41 of the Michigan Compiled Laws.

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as described in the Independent Auditor's Report, but also with applicable rules of the Michigan State Department of Transportation.

**Budgetary Compliance –**

The Road Commission Manager prepares from data submitted by the administrative staff, a proposed operating budget for the calendar year commencing January 1. The operating budget includes proposed expenditures and resources to finance them.

Prior to December 31, the proposed budget is presented to the Board of County Road Commissioners. The Board holds a public hearing and may add to, subtract from or change appropriations. The budget is then legally enacted through passage of a Board of County Road Commissioners Resolution.

The Road Commission's approved budget was adopted at the activity level. This is the legally-enacted level under the State of Michigan Uniform Budgeting and Accounting Act since amendments to the budget at the activity level must be approved by the Board of County Road Commissioners.

**IONIA COUNTY ROAD COMMISSION**  
**A Component Unit of Ionia County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY - (cont'd):**

Michigan Public Act 621 of 1978, Section 18(1), as amended, provides that a governmental unit shall not incur expenditures in excess of the amount appropriated at the legally adopted level. During the year ended December 31, 2005, the Road Commission had over-expenditures as reported on the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

**NOTE 4 - DEPOSITS AND INVESTMENTS:**

As of December 31, 2005, the carrying amount of deposits and investments is as follows:

|                                      |                   |
|--------------------------------------|-------------------|
| Cash on Hand                         |                   |
| Petty Cash                           | \$ 200            |
| Deposits with Financial Institutions |                   |
| Imprest Checking                     | 5,000             |
| Checking                             | 2,098             |
| Deposits with County Treasurer       |                   |
| Checking                             | <u>313,632</u>    |
|                                      | <u>\$ 320,930</u> |

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides that the County Treasurer maintain the cash of the Road Commission. All Road Commission receipts are deposited with the Ionia County Treasurer's Office, and in order to make disbursements, the Ionia County Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account. The investing of cash is performed by the County Treasurer.

Information on the Ionia County investment policy and the various investment risk categories may be obtained from the Ionia County Financial Report for the year ended December 31, 2005.

**Deposits –**

As a component unit of Ionia County, all Road Commission cash and cash equivalents are a part of the accounts maintained by Ionia County at banking institutions insured by federal depository insurance. However, the Road Commission by State statute, has funds allocated to it by the State of Michigan for its exclusive use and control. As a result, funds of the Road Commission have separate insurance coverage.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

The Road Commission's deposits consist of demand accounts. At December 31, 2005, the carrying amount of the Road Commission's deposits is \$320,730 and the bank balance is \$483,285, of which, \$100,000 is FDIC insured with the balance exposed to credit risk.

**IONIA COUNTY ROAD COMMISSION**  
**A Component Unit of Ionia County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 5 - FEDERAL AWARDS:**

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal awards for Highway Research, Planning and Construction pertaining to their County. However, only the federal awards applicable to force account expenditures is required to be audited for compliance under the Single Audit Act through Road Commission procurement. The reason for this requirement is that the Road Commission is required to have accounting and administrative control over the force account portion while the balance is administered by MDOT.

During the year ended December 31, 2005, the Road Commission of Ionia County had less than \$500,000 of force account expenditures applicable to federal awards (local force revenue). As result, an audit for compliance under the Single Audit Act has not been required.

The federal revenue in the amount of \$1,089,273 represents the Department of Transportation Federal Highway grant money expended on public road improvement projects which were administered by the Michigan Department of Transportation, however are required to be reported by the Road Commission.

**NOTE 6 - CAPITAL ASSETS:**

Capital assets activity for the current year was as follows:

|                                                | Balance<br>December 31,<br>2004 | Additions | Deletions | Reclass<br>and<br>Removals | Balance<br>December 31,<br>2005 |
|------------------------------------------------|---------------------------------|-----------|-----------|----------------------------|---------------------------------|
| Capital Assets, not being depreciated –        |                                 |           |           |                            |                                 |
| Land                                           | \$ 79,821                       | \$ -      | \$ -      | \$ -                       | \$ 79,821                       |
| Land improvements                              | 10,084,505                      | 931,761   | -         | -                          | 11,016,266                      |
| Right of Ways                                  | 80,000                          | -         | -         | -                          | 80,000                          |
| Total Capital Assets, not being<br>depreciated | 10,244,326                      | 931,761   | -         | -                          | 11,176,087                      |
| Capital Assets, being depreciated –            |                                 |           |           |                            |                                 |
| Buildings and improvements                     | 2,482,222                       | -         | -         | -                          | 2,482,222                       |
| Road Equipment                                 | 5,425,879                       | 631,825   | 513,265   | -                          | 5,544,439                       |
| Shop Equipment                                 | 66,666                          | 7,845     | -         | ( 3,055)                   | 71,456                          |
| Office Equipment                               | 113,452                         | 5,230     | -         | ( 2,029)                   | 116,653                         |
| Engineering equipment                          | 71,281                          | 17,049    | -         | ( 12,021)                  | 76,309                          |
| Infrastructure -                               |                                 |           |           |                            |                                 |
| Roads                                          | 23,674,471                      | 2,137,275 | -         | -                          | 25,811,746                      |
| Bridges                                        | 10,852,997                      | 579,024   | -         | -                          | 11,432,021                      |
| Depletable assets –                            |                                 |           |           |                            |                                 |
| Gravel pits                                    | 10,080                          | -         | -         | -                          | 10,080                          |
|                                                | 42,697,048                      | 3,378,248 | 513,265   | ( 17,105)                  | 45,544,926                      |

**IONIA COUNTY ROAD COMMISSION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 6 - CAPITAL ASSETS - (cont'd):**

|                                                 | Balance<br>December 31,<br>2004 | Additions           | Deletions        | Reclass<br>and<br>Removals | Balance<br>December 31,<br>2005 |
|-------------------------------------------------|---------------------------------|---------------------|------------------|----------------------------|---------------------------------|
| Less – accumulated depreciation for –           |                                 |                     |                  |                            |                                 |
| Buildings and improvements                      | 675,134                         | 71,792              | -                | 1,544                      | 748,472                         |
| Road Equipment                                  | 4,448,796                       | 434,006             | 491,326          | 1,887                      | 4,393,363                       |
| Shop Equipment                                  | 62,503                          | 7,715               | -                | ( 2,367)                   | 67,851                          |
| Office Equipment                                | 96,726                          | 7,760               | -                | ( 2,029)                   | 102,457                         |
| Engineering Equipment                           | 40,734                          | 7,841               | -                | ( 12,021)                  | 36,554                          |
| Infrastructure –                                |                                 |                     |                  |                            |                                 |
| Roads                                           | 12,092,289                      | 1,927,390           | -                | -                          | 14,019,679                      |
| Bridges                                         | 1,786,585                       | 231,325             | -                | -                          | 2,017,910                       |
| Depletable Assets                               | -                               | -                   | -                | -                          | -                               |
|                                                 | <u>19,202,767</u>               | <u>2,687,827</u>    | <u>491,326</u>   | <u>( 12,892)</u>           | <u>21,386,286</u>               |
| Total Capital Assets, being depreciated,<br>net | <u>23,494,281</u>               | <u>690,421</u>      | <u>21,939</u>    | <u>( 4,121)</u>            | <u>24,158,640</u>               |
| Governmental activity capital assets,<br>net    | <u>\$ 33,738,607</u>            | <u>\$ 1,622,182</u> | <u>\$ 21,939</u> | <u>\$ ( 4,121)</u>         | <u>\$ 35,334,727</u>            |

**NOTE 7 - LONG-TERM LIABILITIES:**

The following is a summary of the changes in long-term liabilities of the Road Commission for the year ended December 31, 2005:

|                                  | Balance<br>January 1,<br>2004 | Additions         | Reductions        | Balance<br>December 31,<br>2005 | Due Within<br>One Year |
|----------------------------------|-------------------------------|-------------------|-------------------|---------------------------------|------------------------|
| 1998 MTF Bonds                   | \$ 740,000                    | \$ -              | \$ 170,000        | \$ 570,000                      | \$ 170,000             |
| 2002 Installment Loan            | 69,024                        | -                 | 38,468            | 30,556                          | 30,556                 |
| 2003 Installment Loan            | 95,603                        | -                 | 47,046            | 48,557                          | 48,557                 |
| 2005 Installment Loan            | -                             | 123,000           | -                 | 123,000                         | 39,666                 |
| Accrued sick and vacation        | 166,622                       | 22,721            | -                 | 189,343                         | -                      |
| Retiree Life Insurance Liability | <u>22,000</u>                 | <u>-</u>          | <u>-</u>          | <u>22,000</u>                   | <u>-</u>               |
|                                  | <u>\$1,093,249</u>            | <u>\$ 145,721</u> | <u>\$ 255,514</u> | <u>\$ 983,456</u>               | <u>\$ 288,779</u>      |

Significant details regarding outstanding long-term liabilities are presented below:

**1998 MTF Bonds –**

The Road Commission is obligated for Michigan Transportation Fund Bonds, dated February 1, 1998, in the original amount of \$1,730,000. The annual requirements to amortize the outstanding balance of \$570,000, including interest at December 31, 2005 is as follows:

| Year Ending<br>December 31, | Principal<br>Due<br>August 1 | Interest Due<br>August 1 | Interest Due<br>February 1 | Total<br>Obligation |
|-----------------------------|------------------------------|--------------------------|----------------------------|---------------------|
| 2006                        | \$ 180,000                   | \$ 12,020                | \$ 12,020                  | \$ 204,040          |
| 2007                        | 190,000                      | 8,240                    | 8,240                      | 206,480             |
| 2008                        | <u>200,000</u>               | <u>4,250</u>             | <u>4,250</u>               | <u>208,500</u>      |
|                             | <u>\$ 570,000</u>            | <u>\$ 24,510</u>         | <u>\$ 24,510</u>           | <u>\$ 619,020</u>   |

**IONIA COUNTY ROAD COMMISSION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 7 - LONG-TERM LIABILITIES - (cont'd):**

**Installment Loans –**

The Road Commission in July 2002 entered into an installment loan in the amount of \$150,000 to defray a portion of the cost of purchasing a 2002 Gradall. The loan is payable annually with interest at 3.49%. The principle balance at December 31, 2005 is \$30,556.

In July 2003, the Road Commission borrowed \$141,331 for the purchase of two dump trucks. The loan is payable annually with interest at 3.27%. The principle balance at December 31, 2005 is \$48,557.

In August 2005, the Road Commission borrowed \$123,000 for the purchase of a loader. The loan is payable annually with interest at 3.37%. The principle balance at December 31, 2005 is \$123,000.

The annual requirements to amortize the above loans outstanding at December 31, 2004, including interest payments, are as follows:

|      | <u>Installment Loan 2002</u> |                 | <u>Installment Loan 2003</u> |                 | <u>Installment Loan 2005</u> |                 |
|------|------------------------------|-----------------|------------------------------|-----------------|------------------------------|-----------------|
|      | <u>Principal</u>             | <u>Interest</u> | <u>Principal</u>             | <u>Interest</u> | <u>Principal</u>             | <u>Interest</u> |
| 2006 | \$ 30,556                    | \$ 1,066        | \$ 48,557                    | \$ 1,588        | \$ 39,666                    | \$ 3,734        |
| 2007 | -                            | -               | -                            | -               | 40,985                       | 2,415           |
| 2008 | -                            | -               | -                            | -               | 42,349                       | 1,051           |
|      | <u>\$ 30,556</u>             | <u>\$ 1,066</u> | <u>\$ 48,557</u>             | <u>\$ 1,588</u> | <u>\$ 123,000</u>            | <u>\$ 7,200</u> |

**Accrued Sick and Vacation –**

In accordance with Board policy and the labor agreement with the Road Commission, individual employees have a vested right upon termination of employment to receive compensation for accumulated sick leave and vacation under formulas and conditions specified in the contracts. The dollar amounts of these vested rights, which have been accrued, on the government-wide statements amounted to approximately \$55,685 for sick leave, and \$133,658 for vacation at December 31, 2005.

**Retiree Life Insurance Liability –**

During 1995, the Road Commission elected to become self-insured with respect to retirees life insurance benefits, as it relates to existing retirees. Employees who retire from the Road Commission after 1995 are no longer granted life insurance at retirement, through contract negotiations. However, employees who retired prior to the effective date of the current employee contract were granted life insurance coverage upon retirement. The Road Commission decided not to continue paying the premiums on the existing policies and to pay the death benefits from future resources. Accordingly, a liability for retiree's life insurance benefits was recorded in the government-wide statements in the amount of \$22,000, which represents the maximum remaining amount of death benefits to be paid to beneficiaries.

**IONIA COUNTY ROAD COMMISSION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 8 - EMPLOYEE PENSION PLAN:**

**Plan Description –**

The Ionia County Road Commission participates in the Michigan Municipal Employees Retirement System (MERS), a multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

**Funding Policy –**

The plan adopted by the Board of Commissioners requires all employees to contribute 3% of their annual compensation. The Road Commission is required to contribute at an actuarially determined rate; the weighted average rate for 2004 was 25.67% for all employees. The contribution requirements of plan members and the Road Commission are established and may be amended by the Road Commission, depending on the MERS contribution program adopted by the Road Commission.

**Annual Pension Costs –**

For the year ended December 31, 2005, the Road Commission's actual pension cost of \$474,759 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 8% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0% to 4.16% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit E-1 or E-2. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes as an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized as a level percent of payroll over a period of 30 years.

**Three-Year Trend Information**

| <u>Fiscal Year</u><br><u>Ending</u><br><u>December 31,</u> | <u>Annual Pension</u><br><u>Costs (APC)</u> | <u>Percentage</u><br><u>of APC</u><br><u>Contribution</u> | <u>Net Pension</u><br><u>Obligation</u> |
|------------------------------------------------------------|---------------------------------------------|-----------------------------------------------------------|-----------------------------------------|
| 2003                                                       | \$ 507,514                                  | 100 %                                                     | \$ -                                    |
| 2004                                                       | 458,963                                     | 100                                                       | -                                       |
| 2005                                                       | 474,759                                     | 100                                                       | -                                       |

**IONIA COUNTY ROAD COMMISSION**  
**A Component Unit of Ionia County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 8 - EMPLOYEE PENSION PLAN - (cont'd):**

**Schedule of Funding Progress**

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL) Entry Age<br>(b) | Unfunded<br>(Overfunded)<br>Accrued Liability<br>(UAAL)<br>(b-a) | Funded<br>Ratio<br>(AAL)<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL<br>as a % of<br>Covered Payroll<br>[(b-a)/c] |
|--------------------------------|----------------------------------------|-------------------------------------------------------------|------------------------------------------------------------------|-----------------------------------|---------------------------|---------------------------------------------------|
| 2002                           | 3,270,344                              | 10,113,804                                                  | 6,843,460                                                        | 32                                | 1,775,830                 | 385                                               |
| 2003                           | 3,703,061                              | 10,745,857                                                  | 7,042,796                                                        | 34                                | 1,849,503                 | 381                                               |
| 2004                           | 3,929,649                              | 11,470,308                                                  | 7,540,659                                                        | 34                                | 1,786,886                 | 422                                               |

**NOTE 9 - POSTEMPLOYMENT BENEFITS:**

In addition to the pension benefits described in Note 8, the Ionia County Road Commission provides postemployment health care to eligible employees who retire from the Road Commission on or after attaining retirement age with at least ten or twenty years of service, depending on position. Expenditures for postemployment health care benefits are recognized on a pay-as-you-go basis. For the year ended December 31, 2005 these costs amounted to approximately \$284,471 with 32 eligible participants.

**NOTE 10 - SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES:**

There are various legal actions pending against the Road Commission. Due to the inconclusive nature of many of the actions, it is not possible to determine the probable outcome or a reasonable estimate of the Road Commission's potential liability, if any. The potential liability from legal actions, if any, not covered by insurance, is considered by management to be immaterial to the Road Commission.

The Road Commission participates in a number of agreements with the State of Michigan, by which the Road Commission receives advances and reimbursements per the agreements. These advances and reimbursements are subject to audit by the State of Michigan. The amounts, if any, which may have to be paid back to the State cannot be determined at this time, although the Road Commission expects such amounts, if any, to be immaterial.

**NOTE 11 - ADVANCES AND DEPOSITS:**

Advances of \$285,680 at December 31, 2005, represent money advanced by the State of Michigan under the maintenance contract the Road Commission has with the State, money advanced by the State for equipment purchases, and advances from Townships and contractors for various projects. Both State advances are adjusted annually by the State and must be repaid if the maintenance contract is canceled. The following is a summary of the balance by source and use:

|                       |                |
|-----------------------|----------------|
| State –               |                |
| Trunkline maintenance | \$ 87,550      |
| Equipment             | <u>169,676</u> |
|                       | <u>257,226</u> |

**IONIA COUNTY ROAD COMMISSION**  
**A Component Unit of Ionia County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 11 - ADVANCES AND DEPOSITS - (cont'd):**

|                               |                   |
|-------------------------------|-------------------|
| Local –                       |                   |
| Contractors and Individuals – |                   |
| Permits                       | <u>28,454</u>     |
|                               | <u>\$ 285,680</u> |

**NOTE 12 - RISK MANAGEMENT:**

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan, which authorizes contracts between municipal corporations (inter local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Michigan County Road Commission Self-Insurance Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commissions, which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Ionia County Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability.

The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also a member of the County Road Association Self-Insurance Fund for workers' compensation self-insurance. The fund is a municipal self-insurance entity operating within the laws of the State of Michigan. The fund has entered into reinsurance agreements providing for loss coverage in excess of amounts to be retained by the Fund.

The Road Commission continues to carry commercial insurance for employee health and accident insurance. The amount of settlement claims for the past three years has not exceeded insurance coverage.



**IONIA COUNTY ROAD COMMISSION**  
**A Component Unit of Ionia County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 13 - EQUIPMENT EXPENDITURE NET BALANCE:**

The Road Commission, in compliance with the Uniform Accounting Procedures Manual for Michigan County Road Commissions charges rental on Road Commission equipment used for various construction and maintenance projects performed by the Road Commission. The cost for this rental, which is based on a rental rate per hour established by the Michigan Department of Transportation multiplied by rental hours, is reported as an expenditure in the various maintenance activities. An expenditure credit is reported as an offset against the equipment expenditure activities. Accordingly, the equipment rental does not affect total expenditures or the available operating equity of the Road Commission's General Operating Fund. The net balance for the year ended December 31, 2005 is as follows:

|                       | <u>Governmental<br/>Fund</u> | <u>Statement<br/>of Activities</u> |
|-----------------------|------------------------------|------------------------------------|
| Equipment –           |                              |                                    |
| Direct                | \$ 927,321                   | \$ 498,944                         |
| Indirect              | 518,931                      | 477,392                            |
| Operating             | <u>250,568</u>               | <u>250,568</u>                     |
|                       | 1,696,820                    | 1,226,904                          |
| Less-equipment rental | <u>1,698,338</u>             | <u>1,698,338</u>                   |
|                       | <u>\$ ( 1,518)</u>           | <u>\$ ( 471,434)</u>               |

## **SUPPLEMENTARY INFORMATION**

**IONIA COUNTY ROAD COMMISSION**  
**A Component Unit of Ionia County, Michigan**

**DETAIL SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES**  
**GENERAL OPERATING FUND**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

|                                            | <u>2005</u>         | <u>2004</u>         |
|--------------------------------------------|---------------------|---------------------|
| <b>Revenues:</b>                           |                     |                     |
| Permits -                                  | \$ 74,976           | \$ 54,211           |
| Federal Sources -                          |                     |                     |
| Bridge                                     | 386,116             | 264,019             |
| Surface Transportation Program (STP)       | 396,865             | 585,870             |
| Other                                      | 306,292             | 155,834             |
|                                            | <u>1,089,273</u>    | <u>1,005,723</u>    |
| State Sources -                            |                     |                     |
| Motor Vehicle Highway Funds - Act 51 -     |                     |                     |
| Engineering                                | 10,000              | 10,000              |
| Primary roads                              | 2,962,461           | 3,139,810           |
| Local roads                                | 1,527,532           | 1,595,468           |
| Primary urban roads                        | 138,671             | 161,278             |
| Local urban roads                          | 35,646              | 41,303              |
| Critical bridge                            | 72,397              | 49,545              |
| Rural primary money ( Category D funds )   | 436,233             | 110,911             |
| Other                                      | 331,359             | 1,104               |
|                                            | <u>5,514,299</u>    | <u>5,109,419</u>    |
| Local Sources -                            |                     |                     |
| Township contributions                     | 1,046,112           | 1,253,636           |
| Other contributions                        | 57,515              | 26,707              |
|                                            | <u>1,103,627</u>    | <u>1,280,343</u>    |
| Charges for Services -                     |                     |                     |
| Trunkline maintenance & nonmaintenance     | 1,275,665           | 1,278,084           |
| Salvage Sales                              | -                   | -                   |
|                                            | <u>1,275,665</u>    | <u>1,278,084</u>    |
| Interest                                   | <u>31,931</u>       | <u>19,829</u>       |
| Other -                                    |                     |                     |
| Gain on equipment disposal                 | 159,814             | 35,507              |
| Other                                      | 75,127              | 48,057              |
|                                            | <u>234,941</u>      | <u>83,564</u>       |
| Total Revenues                             | <u>9,324,712</u>    | <u>8,831,173</u>    |
| <b>Other Financing Sources:</b>            |                     |                     |
| County appropriation                       | 94,000              | 64,000              |
| Installment loan proceeds                  | 123,000             | -                   |
|                                            | <u>217,000</u>      | <u>64,000</u>       |
| Total Revenues and Other Financing Sources | <u>\$ 9,541,712</u> | <u>\$ 8,895,173</u> |

**IONIA COUNTY ROAD COMMISSION**  
**A Component Unit of Ionia County, Michigan**

**DETAIL SCHEDULE OF EXPENDITURES**  
**GENERAL OPERATING FUND**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

| <b>Expenditures:</b>                    | <u>2005</u>                | <u>2004</u>                |
|-----------------------------------------|----------------------------|----------------------------|
| Preservation - Structural Improvements  |                            |                            |
| Primary roads and structures            | \$ 2,330,943               | \$ 2,247,409               |
| Local roads and structures              | <u>1,317,117</u>           | <u>1,704,374</u>           |
|                                         | <u>3,648,060</u>           | <u>3,951,783</u>           |
| Maintenance -                           |                            |                            |
| Primary roads and structures,           |                            |                            |
| winter maintenance and traffic control  | 1,742,581                  | 1,392,146                  |
| Local roads and structures,             |                            |                            |
| winter maintenance, and traffic control | <u>2,354,534</u>           | <u>1,821,374</u>           |
|                                         | <u>4,097,115</u>           | <u>3,213,520</u>           |
| State Maintenance -                     |                            |                            |
| Trunkline maintenance                   | 1,117,386                  | 1,114,579                  |
| Trunkline nonmaintenance                | <u>73,845</u>              | <u>113,054</u>             |
|                                         | <u>1,191,231</u>           | <u>1,227,633</u>           |
| Equipment -                             |                            |                            |
| Direct                                  | 927,321                    | 945,982                    |
| Indirect                                | 518,931                    | 500,921                    |
| Operating                               | 250,568                    | 177,919                    |
| Less - equipment rental                 | <u>( 1,698,338)</u>        | <u>( 1,596,798)</u>        |
|                                         | <u>( 1,518)</u>            | <u>28,024</u>              |
| Administrative -                        |                            |                            |
| Administration                          | 459,988                    | 448,395                    |
| Less -                                  |                            |                            |
| State trunkline overhead                | <u>( 113,761)</u>          | <u>( 109,598)</u>          |
| Purchase discounts                      | <u>( 772)</u>              | <u>( 489)</u>              |
|                                         | <u>345,455</u>             | <u>338,308</u>             |
| Other -                                 |                            |                            |
| Sundry                                  | 24,030                     | 28,714                     |
| General engineering                     | <u>37,600</u>              | <u>36,437</u>              |
|                                         | <u>61,630</u>              | <u>65,151</u>              |
| Capital Outlay -                        |                            |                            |
| Buildings                               | 7,845                      | 10,255                     |
| Equipment                               | 654,104                    | 384,669                    |
| Less - depreciation                     | <u>( 529,112)</u>          | <u>( 531,536)</u>          |
| - retirements                           | <u>( 21,939)</u>           | <u>( 2,480)</u>            |
|                                         | <u>110,898</u>             | <u>( 139,092)</u>          |
| Debt Service -                          |                            |                            |
| Principal retirement                    | 255,514                    | 247,755                    |
| Interest and fiscal charges             | <u>36,297</u>              | <u>45,820</u>              |
|                                         | <u>291,811</u>             | <u>293,575</u>             |
| Total Expenditures                      | <u><u>\$ 9,744,682</u></u> | <u><u>\$ 8,978,902</u></u> |

**IONIA COUNTY ROAD COMMISSION**  
**A Component Unit of Ionia County, Michigan**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BY FUND BALANCE SUB-ACCOUNTS**  
**GENERAL OPERATING FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

|                                                   | Primary           | Local            | County              | Total               |
|---------------------------------------------------|-------------------|------------------|---------------------|---------------------|
| <b>Revenues:</b>                                  |                   |                  |                     |                     |
| Permits                                           | \$ -              | \$ -             | \$ 74,976           | \$ 74,976           |
| Intergovernmental -                               |                   |                  |                     |                     |
| Federal Sources                                   | 703,157           | 386,116          | -                   | 1,089,273           |
| State Sources                                     | 3,874,289         | 1,639,075        | 935                 | 5,514,299           |
| Local Sources                                     | 30,000            | 1,016,112        | 57,515              | 1,103,627           |
| Charges for services                              | 1,275,665         | -                | -                   | 1,275,665           |
| Interest                                          | 3,577             | -                | 28,354              | 31,931              |
| Other                                             | 159,388           | -                | 75,553              | 234,941             |
| Total Revenues                                    | <u>6,046,076</u>  | <u>3,041,303</u> | <u>237,333</u>      | <u>9,324,712</u>    |
| <b>Other Financing Sources:</b>                   |                   |                  |                     |                     |
| County appropriation                              | -                 | -                | 94,000              | 94,000              |
| Installment loan                                  | 123,000           | -                | -                   | 123,000             |
|                                                   | <u>123,000</u>    | <u>-</u>         | <u>94,000</u>       | <u>217,000</u>      |
| Total Revenues and Other Financing Sources        | <u>6,169,076</u>  | <u>3,041,303</u> | <u>331,333</u>      | <u>9,541,712</u>    |
| <b>Expenditures:</b>                              |                   |                  |                     |                     |
| Preservation - structural improvement             | 2,465,259         | 1,834,477        | -                   | 4,299,736           |
| Maintenance                                       | 1,608,266         | 1,837,174        | -                   | 3,445,440           |
| State maintenance                                 | 1,191,231         | -                | -                   | 1,191,231           |
| Equipment - net                                   | ( 698)            | ( 769)           | ( 51)               | ( 1,518)            |
| Administrative - net                              | 181,690           | 163,765          | -                   | 345,455             |
| Capital outlay - net                              | 112,309           | -                | ( 1,411)            | 110,898             |
| Debt Service -                                    |                   | -                |                     | -                   |
| Principal retirement                              | 255,514           | -                | -                   | 255,514             |
| Interest                                          | 36,297            | -                | -                   | 36,297              |
| Other                                             | 19,774            | 17,826           | 24,029              | 61,629              |
| Total Expenditures                                | <u>5,869,642</u>  | <u>3,852,473</u> | <u>22,567</u>       | <u>9,744,682</u>    |
| Excess of revenues and other sources over (under) |                   |                  |                     |                     |
| expenditures before optional transfers            | 299,434           | ( 811,170)       | 308,766             | ( 202,970)          |
| Optional transfers                                | <u>( 811,170)</u> | <u>811,170</u>   | <u>-</u>            | <u>-</u>            |
| Excess of revenues and other sources over (under) |                   |                  |                     |                     |
| expenditures                                      | ( 511,736)        | -                | 308,766             | ( 202,970)          |
| Fund Balance at beginning of year                 | 131,919           | -                | 1,163,192           | 1,295,111           |
| Inter sub-account transfer                        | <u>379,817</u>    | <u>-</u>         | <u>( 379,817)</u>   | <u>-</u>            |
| Fund Balance at end of year                       | <u>\$ -</u>       | <u>\$ -</u>      | <u>\$ 1,092,141</u> | <u>\$ 1,092,141</u> |

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING  
STANDARDS***

To the Board of County Road Commissioners  
of Ionia County  
Ionia, Michigan

We have audited the financial statements of Ionia County Road Commission as of and for the year ended December 31, 2005, and have issued our report thereon, dated March 16, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered Ionia County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Ionia County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of management and Board of County Road Commissioners of Ionia County, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

  
Certified Public Accountants

March 16, 2006